

May 13, 2026

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB No. 2026-001, Request for Public Comment on PCAOB Strategic Priorities

Dear Chairman Logothetis and Members of the Board:

I appreciate the opportunity to comment on the PCAOB’s strategic priorities as the Board develops its 2026–2030 strategic plan. I am Lisa Yao Liu, an Assistant Professor of Accounting at Columbia Business School and a Fellow of the Stigler Center for the Study of the Economy and the State at the University of Chicago Booth School of Business. My research focuses on the effectiveness of auditing regulation, disclosure mandates, and oversight mechanisms. I serve on the editorial boards of *The Accounting Review* and *Contemporary Accounting Research*, and my work has been published in the *Journal of Accounting and Economics*, the *Journal of Accounting Research*, and *Management Science*.

I write to share insights from my academic research that I believe are directly relevant to several of the questions the Board has posed. My comments address two areas: (1) the effectiveness of the PCAOB’s inspection program, and (2) the broader reach of PCAOB oversight beyond public companies.

1. PCAOB Inspections Improve Audit Quality Through Both Static and Dynamic Deterrence

The Board has asked what should be its strategic priorities in inspections and enforcement, and what changes should be made to the inspections program. My research provides direct evidence on how PCAOB inspections affect auditor behavior and audit quality.

In a study using a structural estimation framework to model the PCAOB’s oversight of audit firms (Liu and Matsuno, “[PCAOB Monitoring and Auditor Effort: Evidence from Dynamic Model Estimation](#),” 2026), we model and plan to estimate that PCAOB inspections improve audit quality through two distinct channels. First, the threat of future inspections incentivizes auditors to increase their effort even in periods when they are not being inspected (dynamic deterrence). Second, auditors exert additional effort during inspection periods themselves (static deterrence). The structural model allows me to separate these two channels, which is not possible with reduced-form methods alone.

This project has important implications for the Board’s strategic planning. It suggests that the PCAOB’s inspection program creates value not only through the direct detection of deficiencies but also through the ongoing deterrent effect it has on auditor behavior. As the Board considers modernizing its inspection approach, including the potential use of AI and automation, I would encourage the Board to consider how any changes to inspection frequency, scope, or methodology might affect the dynamic deterrence channel. A reduction in the perceived likelihood of inspection

could diminish auditors' baseline effort levels, even if the inspections that do occur are more technologically sophisticated.

2. PCAOB Oversight Benefits Extend Beyond Public Companies to Private Firms

The Board's statutory mission centers on protecting investors in public companies. However, my research demonstrates that the benefits of public auditing oversight extend significantly beyond the public company audit market.

In Liu and Tong, "[The Spillover Effect of Public Firm Audit Regulation on Private Firm Auditing: Evidence from Common Partners](#)" (*Journal of Accounting and Economics*, 2026), we show that the public firm audit regulation creates positive spillover effects for private firms that share the same audit partners. When an audit partner is subject to the public firm audit regulation through their public company engagements, the quality of their private company audits also improves. This finding, which received the Best Paper Award at the Haskell & White Academic Conference, suggests that the public firm audit regulation produces broader social benefits than its mandate alone would suggest.

Additionally, in a complementary study (Cheynel, Liu, Tong, and Frank Zhou, "[The Value of Auditing Services for Private Firms](#)," 2026), we develop a dynamic structural model of the private firm audit market. We find that audits conducted by larger audit firms deliver quality that is valued above the fees they charge, and that the audit mandate contributes to sustaining these quality differentials.

These findings are relevant to the Board's strategic planning in at least two ways. First, they provide evidence that the public audit regulation generates positive externalities that benefit stakeholders beyond the direct scope of its mandate. This broader impact should be considered when evaluating the costs and benefits of the inspection program. Second, as the Board considers how to allocate inspection resources, the spillover channel through shared audit partners suggests that inspecting audit firms with significant private company client bases may generate especially large aggregate benefits.

3. Technology, Cybersecurity, and Audit Quality

The Board has asked how it should consider deploying technology, including AI, to further its investor-protection mission. My research on the intersection of auditing and information technology provides relevant context.

In Liu, "[Financial Statement Audits and Data Breaches](#)" (*Management Science*, 2024), I show that higher-quality financial statement audits help prevent corporate data breaches. This finding demonstrates that the audit function has broader implications for corporate information security than traditionally recognized, and that audit quality improvements can generate benefits that extend well beyond the financial statements themselves.

As the Board explores how to deploy AI and technology in its own operations, this research suggests that the Board should also consider the implications of AI adoption by audit firms and their clients. The increasing use of AI in financial reporting and auditing creates new risks,

including risks to data integrity and cybersecurity, that the PCAOB's inspection program may need to address. Standard-setting initiatives that require auditors to evaluate technology-related risks in their clients' internal controls could enhance both audit quality and broader corporate resilience.

4. Enhancing Transparency Through Disclosure of Inspection Outcomes

The Board has asked how it can enhance transparency with stakeholders. My broader research program on the real effects of mandatory disclosure provides a framework for thinking about this question.

In Christensen, Floyd, Liu, and Maffett, "[The Real Effects of Mandated Information on Social Responsibility in Financial Reports: Evidence from Mine-Safety Records](#)" (*Journal of Accounting and Economics*, 2017), which received the Distinguished Contribution to Accounting Literature Award from the American Accounting Association, we demonstrate that mandatory disclosure requirements can change real behavior, not merely inform market participants. When the SEC required public companies to disclose mine safety records, actual workplace injuries declined.

Just as the SEC's mine safety disclosure requirements changed mine operators' behavior by making safety records visible to investors and the public, the PCAOB's inspection reports can similarly influence auditor behavior by making inspection outcomes more accessible and comparable to audit committees, investors, and other stakeholders. As the Board considers enhancing its inspection reporting, research on disclosure design suggests that more granular, standardized, and comparable reporting of inspection outcomes could strengthen the deterrent effect of inspections and provide more actionable information to audit committees and investors.

Conclusion

The academic research summarized above provides evidence that the PCAOB's inspection program can be effective through multiple channels, that its benefits can extend beyond its direct mandate to include private firm auditing, and that thoughtful disclosure design can strengthen the real-world impact of regulatory transparency. I hope these findings are useful as the Board develops its 2026–2030 strategic plan.

I would welcome the opportunity to discuss any of these findings in more detail with the Board or its staff. Thank you for the opportunity to contribute to this important process.

Respectfully submitted,

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